

SANTA CLARA COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

Chapter 1747, Statutes of 1984, and
Chapter 1274, Statutes of 1985

July 1, 2000, through June 30, 2002



STEVE WESTLY
California State Controller

June 2005



STEVE WESTLY
California State Controller

June 24, 2005

The Honorable John V. Guthrie
Director of Finance
Santa Clara County
County Government Center, East Wing
70 West Hedding Street, 2nd Floor
San Jose, CA 95110

Dear Mr. Guthrie:

The State Controller's Office audited the claims filed by Santa Clara County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002.

The county claimed \$20,586,996 (\$20,587,996 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$16,605,151 is allowable and \$3,981,845 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible costs, did not include all relevant offsetting revenues, and inaccurately computed administrative costs. The State paid the county \$10,169,999. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,435,152, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/ams

cc: (See page 2)

cc: David G. Elledge
 Controller-Treasurer
 Santa Clara County
Martha Paine
 Director of General Fund Financial Services
 Santa Clara Valley Health & Hospital System
Nancy Pena, Director
 Mental Health Administration
 Santa Clara County
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Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by Santa Clara County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was September 1, 2004.

The county claimed \$20,586,996 (\$20,587,996 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$16,605,151 is allowable and \$3,981,845 is unallowable. The unallowable costs occurred because the county claimed ineligible costs, did not include all relevant offsetting revenues, and inaccurately computed administrative costs. The State paid the county \$10,169,999. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,435,152, contingent upon available appropriations.

Background

Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985, added and amended *Government Code* Section 7570 and *Welfare and Institutions Code* Section 5651 by requiring counties to participate in the mental health assessment for "individuals with exceptional needs," participate in the expanded "Individualized Education Program" (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed."

On April 26, 1990, the Commission on State Mandates (COSM) determined that this legislation resulted in state-mandated costs, which are reimbursable pursuant to *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines criteria for reimbursement. COSM adopted the *Parameters and Guidelines* on August 22, 1991, and amended it on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandate programs, to assist local agencies and school districts in claiming reimbursable costs.

Parameters and Guidelines states that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by *Welfare and Institutions Code* Section 17600 et seq. (realignment funds). As a result, allowable mental health treatment costs for Santa Clara County increased by \$10,416,878 during the audit period (\$5,168,200 for FY 2000-01 and \$5,248,678 for FY 2001-02).

**Objective,
Scope, and
Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Handicapped and Disabled Students Program for the period of July 1, 2000, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Santa Clara County claimed \$20,586,996 (\$20,587,996 less a \$1,000 penalty for filing a late claim) for Handicapped and Disabled Students Program costs. Our audit disclosed that \$16,605,151 is allowable and \$3,981,845 is unallowable.

For FY 2000-01, the State paid the county \$4,103,820. Our audit disclosed that \$7,372,225 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$3,268,405, contingent upon available appropriations.

For FY 2001-02, the State paid the county \$6,066,179. Our audit disclosed that \$9,232,926 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$3,166,747, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on March 25, 2005. David G. Elledge, Controller-Treasurer, responded by memorandum dated May 4, 2005 (Attachment), agreeing with the audit results except for Finding 1. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Santa Clara County and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2000, through June 30, 2002

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
Assessment and case management costs	\$ 1,928,742	\$ 2,036,687	\$ 107,945	Finding 1
Administrative costs	404,859	166,397	(238,462)	Finding 2
Offsetting revenues:				
State categorical funds	—	(283,343)	(283,343)	Finding 3
Short-Doyle/Medi-Cal funds	(218,802)	(239,521)	(20,719)	Finding 3
Other	—	(50,439)	(50,439)	Finding 3
Net assessment and case management costs	<u>2,114,799</u>	<u>1,629,781</u>	<u>(485,018)</u>	
Treatment costs	9,208,012	8,500,503	(707,509)	Finding 1
Administrative costs	342,959	694,491	351,532	Finding 2
Offsetting revenues:				
State general/realignment funds	—	—	—	
State categorical funds	(959,599)	(1,625,083)	(665,484)	Finding 3
Short-Doyle/Medi-Cal funds	(2,084,725)	(1,705,669)	379,056	Finding 3
Other	—	(121,798)	(121,798)	Finding 3
Net treatment costs	<u>6,506,647</u>	<u>5,742,444</u>	<u>(764,203)</u>	
Total costs	8,621,446	7,372,225	(1,249,221)	
Late claim penalty	—	—	—	
Net costs	<u>\$ 8,621,446</u>	<u>7,372,225</u>	<u>\$ (1,249,221)</u>	
Less amount paid by the State		<u>(4,103,820)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,268,405</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ 4,808,522	\$ 4,417,654	\$ (390,868)	Finding 1
Administrative costs	597,938	387,870	(210,068)	Finding 2
Offsetting revenues:				
State categorical funds	—	(707,506)	(707,506)	Finding 3
Short-Doyle/Medi-Cal funds	—	(688,352)	(688,352)	Finding 3
Other	—	(7,605)	(7,605)	Finding 3
Net assessment and case management costs	<u>5,406,460</u>	<u>3,402,061</u>	<u>(2,004,399)</u>	
Treatment costs	10,648,937	8,607,023	(2,041,914)	Finding 1
Administrative costs	1,365,466	755,697	(609,769)	Finding 2
Offsetting revenues:				
State general/realignment funds	—	—	—	
State categorical funds	(959,599)	(1,683,095)	(723,496)	Finding 3
Short-Doyle/Medi-Cal funds	(2,960,695)	(1,842,633)	1,118,062	Finding 3
Other	(1,534,019)	(5,127)	1,528,892	Finding 3
Net treatment costs	<u>6,560,090</u>	<u>5,831,865</u>	<u>(728,225)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
Total costs	11,966,550	9,233,926	(2,732,624)	
Late claim penalty	(1,000)	(1,000)	—	
Net costs	<u>\$ 11,965,550</u>	9,232,926	<u>\$ (2,732,624)</u>	
Less amount paid by the State		(6,066,179)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,166,747</u>		
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Assessment and case management costs	\$ 6,737,264	\$ 6,454,341	\$ (282,923)	Finding 1
Administrative costs	1,002,797	554,267	(448,530)	Finding 2
Offsetting revenues:				
State categorical funds	—	(990,849)	(990,849)	Finding 3
Short-Doyle/Medi-Cal funds	(218,802)	(927,873)	(709,071)	Finding 3
Other	—	(58,044)	(58,044)	Finding 3
Net assessment and case management costs	<u>7,521,259</u>	<u>5,031,842</u>	<u>(2,489,417)</u>	
Treatment costs	19,856,949	17,107,526	(2,749,423)	Finding 1
Administrative costs	1,708,425	1,450,188	(258,237)	Finding 2
Offsetting revenues:				
State general/realignment funds	—	—	—	
State categorical funds	(1,919,198)	(3,308,178)	(1,388,980)	Finding 3
Short-Doyle/Medi-Cal funds	(5,045,420)	(3,548,302)	1,497,118	Finding 3
Other	(1,534,019)	(126,925)	1,407,094	Finding 3
Net treatment costs	<u>13,066,737</u>	<u>11,574,309</u>	<u>(1,492,428)</u>	
Total costs	20,587,996	16,606,151	(3,981,845)	
Late claim penalty	(1,000)	(1,000)	—	
Net costs	<u>\$ 20,586,996</u>	16,605,151	<u>\$ (3,981,845)</u>	
Less amount paid by the State		(10,169,999)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 6,435,152</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$3,032,346 for the audit period.

The county claimed costs that were not based on actual program costs because the county's automated system did not have unique procedure codes to identify mandate-related services. Consequently, the county used an extraction program to accumulate all mandate-related units of service for its clients at the four main sites. The extraction program erroneously picked up clients who were denied services or for whom cases were closed. For all program-related clients, the county also extracted and claimed medication monitoring and crisis intervention, which are ineligible services. We determined the allowable costs based on actual units of service provided to eligible clients, using the appropriate unit cost.

By claiming costs that are not based on actual units and costs per unit, the county overstated assessment and treatment costs, as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Assessment	\$ 107,945	\$ (390,868)	\$ (282,923)
Treatment ¹	(707,509)	(2,041,914)	(2,749,423)
Audit adjustment	<u>\$ (599,564)</u>	<u>\$ (2,432,782)</u>	<u>\$ (3,032,346)</u>

¹ The above adjustment includes ineligible treatment costs for medication monitoring of \$992,873 (\$434,065 for FY 2000-01 and \$558,808 for FY 2001-02) and crisis intervention of \$570,419 (\$287,723 for FY 2000-01 and \$282,696 for FY 2001-02).

Parameters and Guidelines for the program states that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable. Furthermore, *Parameters and Guidelines* states that only the following treatment services are reimbursable: individual therapy, collateral therapy and contacts, group therapy, day treatment, and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement.

Recommendation

We recommend the county implement policies and procedures to ensure that it utilizes the actual units of service and costs per unit and claims only eligible services in accordance with the mandate program. Furthermore, we recommend the county implement unique procedure codes in its automated system so that it can accurately accumulate and report all mandate-related units of service.

County's Response

The County is in agreement with this assessment. The overstatement occurred because of an inadvertent defect in the computer program extracting claimable services.

We agree that costs were overstated, but we disagree that the lack of unique procedure codes was the problem and we disagree that the use of financially defined procedure codes is in fact advisable. The approach we took in identifying mandated services was totally appropriate in that we isolated services to clients open to the AB3632 Coordinators who case manage all of the children receiving these services. The error that caused an overstatement of costs was simply that the computer algorithm accumulating the services data inadvertently did not exclude services outside of the opening and closing dates of the IEP.

Procedure codes should reflect the specific clinical activities being undertaken rather than the anticipated source of payment for the services being provided. Many years ago, we did try utilizing AB3632-specific procedure codes to capture these services. We found that clinicians were not able to properly differentiate coding for services provided on the basis of the funding source for each client. In our new information system, the approach we have taken is to have services related to this mandate identified by the funding source and/or target population identifiers associated with each service as determined at service registration by clerical staff reviewing financial eligibility. Even so, analysis of the services provided to all clients managed by the AB3632 Coordinators (utilizing the corrected computer algorithm) will be important to evaluate the appropriate use of the funding source/target population identifiers.

We disagree that either of these service modes are ineligible for reimbursement. Medication monitoring and crisis intervention services were included in Mental Health regulations during the time of the audit as well as at the time the original parameters and guidelines were developed. That should make the costs eligible for reimbursement. Pending test claims and the request to amend the AB3632 parameters and guidelines further clarify that these two service modes are eligible for reimbursement at least from FY00 forward, although we believe these service modes should be reimbursable for any past fiscal year that has been included in a state mandated cost claim. In any case, the periods included in this audit (FY01 and FY02) are after that FY00 period. We believe that our position is clearly supported by the intent of AB2781.

SCO's Comment

The finding and recommendation remain unchanged.

The computer program used by the county to accumulate the costs for the program does not exclude services outside the opening and closing dates of the Individualized Education Program (IEP). An application of procedure code may assist the county in identifying the IEP clients who are no longer part of the program, and thus, would not get picked up by the computer program.

As currently amended, *Parameters and Guidelines* limits reimbursement to individual therapy, collateral therapy and contacts, group therapy, day treatment, and the mental health portion of residential treatment in excess of the California Department of Social Services payments for residential placement. Each treatment service above is defined under Title 9, Section 543, of the *California Administrative Code*. Medication monitoring and

crisis intervention were both defined in regulation at the time *Parameters and Guidelines* was adopted and were not included as reimbursable costs.

Reimbursement for medication monitoring and crisis intervention costs depend on whether the COSM adopts proposed amendments to *Parameters and Guidelines*. Based on the dates on which the activities were incorporated into proposed amendments, we believe that medication monitoring would be reimbursable beginning with FY 2001-02 and crisis intervention would be reimbursable beginning with FY 2002-03, if the amendments are adopted.

**FINDING 2—
Overstated
administrative costs**

The county overstated its administrative costs by \$706,767 for the audit period.

The county's indirect cost rate proposal computed administrative rates on salaries and benefits; however, the county applied these rates to total direct costs (salaries and benefits, and services and supplies). During the audit fieldwork, the county revised its administrative cost rate calculations to include all direct costs. However, the county did not reduce administrative costs by related offsetting revenues. These offsetting revenues include Short-Doyle/Medi-Cal Federal Financing Participation (FFP) administration and Utilization Review funds. We recalculated the administrative rates by deducting offsetting revenues from direct costs and applying these rates to eligible direct costs.

By excluding related offsetting revenues from the revised administrative rate calculations, the county overstated administrative costs, as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Assessment	\$ (238,462)	\$ (210,068)	\$ (448,530)
Treatment	351,532	(609,769)	(258,237)
Audit adjustment	<u>\$ 113,070</u>	<u>\$ (819,837)</u>	<u>\$ (706,767)</u>

Parameters and Guidelines for the program states that administrative costs incurred in the performance of the mandated activities and adequately documented are reimbursable. *Parameters and Guidelines* further states that any direct payments (categorical funds, Short-Doyle/Medi-Cal FFP, and other offsets) received from the State that are specifically allocated to the program, as well as any other reimbursements received as a result of the mandate, must be deducted from the claim.

Recommendation

We recommend the county implement policies and procedures to ensure that it prepares and applies indirect cost rate proposals in an equitable manner.

County's Response

The County is in agreement with the State's acceptance of an Indirect Cost Rate Proposal methodology that will be applied to total costs rather than simply salary and benefit costs. The majority of mandated services in this County are provided by contract service agencies rather than by County employees. County administrative costs are significantly affected by the volume of contract agencies and services, particularly in the areas of Quality Assurance and Utilization Review, Patient Billing Services, Information Systems, Contract Administration and Monitoring, Financial Services and System of Care Management.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 3—
Understated offsetting
revenues**

The county understated offsetting revenues by \$242,732 for the audit period.

The county did not include Early Periodic Screening Diagnosis and Treatment (EPSDT) and Special Education Local Plan Area (SELPA) II funds as offsetting revenues. We recalculated offsetting revenues by allocating EPSDT funds across all eligible clients, based on units of service. We also determined offsetting SELPA II funds, based on actual units of service reimbursed by the program. These calculations incorporate the adjustments identified in Findings 1 and 2.

By excluding EPSDT and SELPA II funds and not allocating revenues based on actual services provided, the county misstated its offsetting revenues, as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Assessment:			
State categorical funds	\$ (283,343)	\$ (707,506)	\$ (990,849)
Short-Doyle/Medi-Cal funds	(20,719)	(688,352)	(709,071)
Other	(50,439)	(7,605)	(58,044)
Total assessment offsetting revenues	<u>(354,501)</u>	<u>(1,403,463)</u>	<u>(1,757,964)</u>
Treatment:			
State general/realignment funds	—	—	—
State categorical funds	(665,484)	(723,496)	(1,388,980)
Short-Doyle/Medi-Cal funds	379,056	1,118,062	1,497,118
Other	(121,798)	1,528,892	1,407,094
Total treatment offsetting revenues	<u>(408,226)</u>	<u>1,923,458</u>	<u>1,515,232</u>
Audit adjustment	<u>\$ (762,727)</u>	<u>\$ 519,995</u>	<u>\$ (242,732)</u>

Parameters and Guidelines states that any direct payments (categorical funds, Short-Doyle/Medi-Cal FFP, and other offsets) received from the State that are specifically allocated to the program, as well as any other reimbursements received as a result of the mandate, must be deducted from the claim.

Recommendation

We recommend the county implement policies and procedures to ensure that all applicable reimbursements are properly calculated and accurately offset against reimbursable costs incurred for the program.

County's Response

The County agrees that EPSDT and SELPA II revenues were inadvertently not shown as offsetting mandated services in Fiscal Year FY01. These revenue offsets were however appropriately applied in the FY02 claim.

SCO's Comment

The finding and recommendation remain unchanged.

EPSDT and SELPA II revenues were included in the FY 2001-02 claim. However, as discussed above, the amount of revenue applied was adjusted due to the application of the correct funding percentages.

**Attachment—
County's Response to
Draft Audit Report**

County of Santa Clara

Finance Agency
Controller-Treasurer Department
County Government Center
70 West Hedding Street, East Wing, 2nd Floor
San Jose, California 95110-1705
(408) 299-5200 FAX (408) 289-8629



DATE: May 4, 2005

TO: Jim L. Spano
Chief, Compliance Audits Bureau,
State Controller's Office, Division of audits,
Post Office Box 942850,
Sacramento, CA 94250-5874

FROM: David G. Elledge
Controller-Treasurer

RE: SB90 mandate-Handicapped and Disabled Students Program Audit

Thank you for the audit report on the SB90 State Mandated Cost claims for our Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984 and Chapter 1274, Statutes of 1095) for the period July 1, 2000 through June 30, 2002. The audit process and report were very helpful in enabling us to review our claiming process and cost recovery procedures. Below are our responses to each finding. The responses include both areas in which we agree with your office and areas in which we still disagree. Regarding continuing areas of disagreement, we request your reconsideration of the disputed findings in light of these responses.

Finding 1 – Overstated Assessment and Treatment Costs

The County overstated assessment and treatment costs by \$3,032,346 for the audit period.

Response

The County is in agreement with this assessment. The overstatement occurred because of an inadvertent defect in the computer program extracting claimable services.

The County claimed costs that were not actual program costs because the County's automated system did not have unique procedure codes to identify mandate-related services.

Response

We agree that costs were overstated, but we disagree that the lack of unique procedure codes was the problem and we disagree that the use of financially defined procedure codes is in fact advisable. The approach we took in identifying mandated services was totally appropriate in that we isolated services to clients open to the AB3632 Coordinators who case manage all of the children receiving these services. The error that caused an overstatement of costs was simply that the computer algorithm accumulating the services data inadvertently did not exclude services outside of the opening and closing dates of the IEP.

Procedure codes should reflect the specific clinical activities being undertaken rather than the anticipated source of payment for the services being provided. Many years ago, we did try utilizing AB3632-specific procedure codes to capture these services. We found that clinicians were not able to properly differentiate coding for services provided on the basis of the funding source for each client. In our new information system, the approach we have taken is to have services related to this mandate identified by the funding source and/or target population identifiers associated with each service as determined at service registration by clerical staff reviewing financial eligibility. Even so, analysis of the services provided to all clients managed by the AB3632 Coordinators (utilizing the corrected computer algorithm) will be important to evaluate the appropriate use of the funding source/target population identifiers.

The County also extracted and claimed ineligible services of medication monitoring and crisis intervention.

Response

We disagree that either of these service modes are ineligible for reimbursement. Medication monitoring and crisis intervention services were included in Mental Health regulations during the time of the audit as well as at the time the original parameters and guidelines were developed. That should make the costs eligible for reimbursement. Pending test claims and the request to amend the AB3632 parameters and guidelines further clarify that these two service modes are eligible for reimbursement at least from FY00 forward, although we believe these service modes should be reimbursable for any past fiscal year that has been included in a state mandated cost claim. In any case, the periods included in this audit (FY01 and FY02) are after that FY00 period. We believe that our position is clearly supported by the intent of AB2781.

Finding 2 – Overstated Administrative Costs

The County's indirect cost rate proposal computed administrative rates on salaries and benefits; however, the county applied these rates to total direct costs (salaries and benefits, and service and supplies). During the audit fieldwork, the county revised its administrative cost rate calculations to include all direct costs. However the county did not reduce administrative costs by related offsetting revenue.

Response

The County is in agreement with the State's acceptance of an Indirect Cost Rate Proposal methodology that will be applied to total costs rather than simply salary and benefit costs. The majority of mandated services in this County are provided by contract service agencies rather than by County employees. County administrative costs are significantly affected by the volume of contract agencies and services, particularly in the areas of Quality Assurance and Utilization Review, Patient Billing Services, Information Systems, Contract Administration and Monitoring, Financial Services and System of Care Management.

The county did not include Early Periodic Screening Diagnosis and Treatment (EPSDT) and Special Education Local Plan Area (SELPA) II funds as offsetting revenues.

Response

The County agrees that EPSDT and SELPA II revenues were inadvertently not shown as offsetting mandated services in Fiscal Year FY01. These revenue offsets were however appropriately applied in the FY02 claim.

**State Controller's Office
Division of Audits
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